



9. COST OF DEVELOPMENT

A. INTRODUCTION

The Cost of Development Element includes policies, strategies and objectives designed to ensure that costs to the public for facilities and infrastructure associated with new development are appropriately assigned to support the long-term well-being of the community; and to require that new development provides “fair share” compensation toward the cost of additional public service needs and city infrastructure generated by the impacts of that development.

As the city grows there will be a continuing need to provide expanded services and facilities for the public. Expanded capacity for street improvement projects, sewer lines, waste water treatment plants, police and fire protection, parks and recreation programs, library services, general municipal administration and maintenance programs must be financed through some source of funding. Although new development provides revenue generation from permits, fees and various proportional funding sources, those gains need to be weighed against increased demands for services, facilities, upgrades and long-term system maintenance.

Local tax revenues or increased state shared revenues alone do not typically provide adequate funding to cover the increased demand for services and improvements. Funding of new capital improvement projects generally requires substantial up front financing to be assembled prior to project initiation. The purpose of the Cost of Development Element is to identify mechanisms and strategies available to finance public services and facilities associated with new development and to identify policies to ensure such mechanisms are applied fairly to all involved, including both private and public sectors.

B. LEGISLATIVE REQUIREMENTS

Arizona Revised Statutes § 9-461.05.D.4. requires a general plan to include a Cost of Development element that identifies policies and strategies the municipality will use to ensure development will pay its fair share toward the cost of additional public service needs generated by new development, with appropriate exceptions when in the public interest. This section asks to identify mechanisms to fund public service expansion needed for new development and to include policies to ensure any costs are fairly applied. This element shall include:

(a) A component that identifies various mechanisms that are allowed by law and that can be used to fund and finance public services necessary to serve new development, including bonding, special taxing districts, development fees, in-lieu fees, facility construction, dedications and service privatization.

(b) A component that identifies policies to ensure that any mechanisms that are adopted by the municipality under this element result in a beneficial use to the development and bear a reasonable relationship to the burden imposed on the municipality to provide additional public services to the development and otherwise are imposed according to law.



C. KEY ISSUES

1. Meeting public service expectations.

Estimates of future capacity and service needs change over time based on the current demand and known development trends. As these trends in development have historically varied, it is necessary for the City to carefully monitor the relationship of development activity and capacity, especially since demand can increase or decrease relatively quickly. The City should also periodically survey developers and residents regarding the quality and expectations of City facilities, services and programs.

2. Monitoring cost of operations and services.

The City's ability to provide adequate public facilities and services is directly affected by the cost to develop and operate those facilities and services and how those costs are anticipated to change over time. The City should continue to maintain a detailed inventory of costs, and employ policies and methods for measuring and forecasting those costs, so as to correlate them with the City's budgeting process, including the Capital Improvements Plan process.

3. Evaluating impact and "fair share."

Statutes provide the City of Cottonwood with the ability to require fair share contributions from builders to offset the cost of infrastructure, facilities and services necessary to support new development. However, the amount of the contribution is limited to those impacts that can be determined as directly related to that development. Programs have to follow strict standards to demonstrate the level of impact associated with new development. To ensure fairness, the City should use a fiscal impact analysis which considers how new development contributes toward capital financing in various ways. Fee-recovery analysis should also differentiate between on-site and off-site improvements, to what degree each is required to be recaptured, who is subject to these standards and at what stage they are determined: rezoning, subdivision, permits, etc.

4. Establishing financing mechanisms.

Statutes provide that expenditures may not legally exceed the expenditure limitation of all fund types as a whole. Therefore, the City of Cottonwood must look to alternate sources of funding to equitably assess and manage the fiscal and capital impacts resting from development and growth while maintaining the current community development standards for public services and facilities. As developer contributions may only be applied toward the impacts of new development, the City should also consider a comprehensive approach to financing facilities and services for older areas of the city in need of revitalization. As funding mechanisms change over time, the City should also continue to monitor potential federal, state and regional funding sources for projects which benefit the community.

5. Efficient Land Use.

Infrastructure costs can be reduced by encouraging development in locations where infrastructure is currently available or in relatively close proximity. Expansion of streets, utilities and city facilities to areas beyond current services areas adds to the overall project costs. Through careful design and layout of projects it is possible to reduce public facility costs and produce attractive quality developments that meet contemporary market expectations. Compact pedestrian-oriented development that includes a mix of residential densities and integrated commercial uses can be designed in a manner that reduces both upfront and life-cycle costs.



D. FUNDING MECHANISMS

Sustainable growth and development requires a range of public services and capital improvements to be provided at a citywide level, such as roads, water systems, sewer systems, public safety and quality of life improvements. Various infrastructure requirements can be addressed for new subdivisions, planned developments and other commercial development through existing City codes and ordinances; however, these mechanisms generally only cover a portion of the needs for many development proposals. Even with substantial responsibilities placed on the developer, there can be additional impacts to citywide systems that have to be addressed by other means. Infrastructure and service upgrades, such as sewer and water systems, street circulation facilities, fire and police protection, recreational facilities and general City administration, are also expected components of a complete city program.

The City maintains a core financial policy that is intended to provide a consistent delivery of services to the citizens of Cottonwood with a focus on prioritizing funding according to services, needs and demands for residents. A key goal is to maintain operating expenditures and capital acquisitions within current year revenues with exceptions allowed only for exceptional needs. A number of financing alternatives are available to address the cost of development. A partial list includes the following:

General Fund.

Current revenues, consisting of local sales tax, state-shared revenues, use fees, and various grant sources can be used to pay for all or part of service expansions. This is typically limited to relatively smaller amounts due to competing interests with general operating expenses. General fund revenues can be used where a cash match is required for grant requests and funds can be set aside over a number of years to build up revenues.

Sales Tax Revenue.

The transaction privilege tax (sales tax) is collected on the gross receipts of sales of products and services to the end user. Until 1987, the local portion of the tax rate was 1%. In 1987, the Cottonwood voters approved an increase of 1% to fund the construction of the wastewater collection/treatment plant. In 1992, the voters approved an additional two-tenths percent increase to construct a new library. The current local portion of sales tax for Cottonwood is three-percent (3%). The total combined sales tax rate in Cottonwood is 10.35%; however, with no local property tax, the tax burden on local residents tends to be equal or lower than a number of nearby communities and many other Arizona cities.

Specialty Industry Tax (Hotel Bed Tax).

Many jurisdictions place a tax on certain types of specialty uses, such as hotels, restaurants and bars. The tax collected is directed towards specific uses that also benefit those businesses being taxed, such as tourism promotion, recreational facilities and cultural programs. Cottonwood currently has a 3% hotel tax that is used by the Cottonwood Chamber of Commerce for tourism promotion and related economic development activities.

Permit Fees.

Revenues from permit fees collected from building permits, application fees, parks and recreation fees and a variety of other programs need to be based on the cost of service provided. Such fees generally help offset the direct costs associated with providing these services but typically only cover a portion of total operating expenses. Fees should be periodically evaluated and adjusted in a fair and equitable manner.

User Fees.

User fees are assessed for the specific use of a service or activity. A user fee can be utilized to defray a portion of the total cost of the entire project. One advantage of the user fee is that it is incurred by the person using the specific service. This may include use of facilities, parks or other city property.



Development Fees.

Recent changes to state statute have placed limitations on how development fees are applied. The intent of development fees is for a developer to contribute fees to pay for a proportionate share of the public facilities required to serve such development. With growth and development, eventually there will be a need to pay for new infrastructure and facility expansion to service such growth. Municipalities may continue to assess development fees that were in place prior to January 1, 2012 but after August 1, 2014, cities are required to replace any existing fees with new regulations consistent with the new state legislation. (A.R.S. § 9-463.05) Key provisions include the following:

1. **Necessary Public Services.** The new legislation requires that municipalities only charge Fees for the following facilities that have a life of 3 years or more: water, wastewater, storm water, streets, Police and Fire (does not include regional training facilities, administrative vehicles, planes, or helicopters), parks (less than 30 acres), and Libraries (up to 10,000 square feet).
2. **Service Areas.** The new law requires that there be a “substantial nexus” between the Fee project and the development being served by this facility thus requiring the establishment of meaningful service areas as opposed to the one or two service areas over the entire jurisdictional boundary that some municipalities had been utilizing.
3. **Infrastructure Improvement Plan. (“IIP”).** Municipalities now must prepare a detailed IIP by service area(s) that will identify all public facilities serving existing developments and the current Level of Service (LOS) of such facilities. The IIP must show all public facilities to be provided to new development and their expected LOS. The IIP must forecast future revenues estimated to be generated by new growth and to the extent used to fund DIF improvements offset be provided. Additionally, costs estimates must be prepared by qualified professionals that are licensed in the state of Arizona.
4. **Completion Requirement.** The new law requires that municipalities plan and provide for water and sewer service within 15 years after the project is included within the IIP and 10 years for all other projects. If facilities are not complete within this time frame a refund of the unexpended Fees will be required.
5. **Advisory Committee or Certified Audit.** Prior to assessing the Fee, the municipality must either:
 - a.) Establish a five member advisory committee, of which half of the members must come from the development industry and at least one from the home building industry; or, b.) Engage a qualified firm for a biennial certified audit of the Fee program.
6. **Other Miscellaneous Provisions.** Other provisions of the state legislation regarding development fees include:
 - a. Requirement that municipalities may no longer waive Fees for any category of development, unless the municipality commits to reimburse the Fee accounts for which the Fee would have been collected.
 - b. Fees are frozen for a period of 24 months from the date on which the first building permit is issued rather than when the project is approved.
 - c. Fee credits will be provided for any project not included in the IIP. If a jurisdiction attempts to require as a condition of project approval the construction or contribution of a facility not included in the IIP, the jurisdiction must add the facility to the IIP and provide the developer a credit against their Fees.
 - d. Fee credits may be assigned to other developments within the same service area.
 - e. Municipalities may continue to bond against Fees, but may only use Fees to pay off the portion of the bonds that were used to finance the construction of the facility.



Offsets.

Offset refers to a reduction, in the form of a credit against impact fees owed to the city, for new development. Offsets against the amount of an impact fee due from a new development may be provided only for the following impacts on the city's water and/or wastewater systems:

- A. Creates increased water supply; Enhances water pumping facilities; Adds water supply, storage, and pumping facilities deemed by the City Council to be beneficial to the citizens of Cottonwood;
- B. Increased wastewater treatment capacity deemed by the City Council to be beneficial to the citizens of Cottonwood;
- C. Enhanced downstream collection system capacity deemed beneficial to the citizens of Cottonwood.

Dedications.

A dedication is the conveyance of land by a private owner in the nature of a gift or grant and the acceptance of that land by the City. Streets in a subdivided development are usually acquired through a dedication to the public of the property comprising the streets. The public is then required to maintain those facilities forever. Rights of way are granted to the city by the developer through the enactment of City Ordinance #144. Other dedications may include land for various uses either through donation or as associated with certain development applications.

Development Agreements.

Development agreements are permitted under A.R.S. 9-500.5 for municipalities. Development agreements permit contractual arrangements between the City and property owner(s) usually in regards to various development applications submitted at the request of a developer. Development agreements are entered into in a voluntary manner between the City and the developer. Such agreements spell out the responsibilities for each party and should generally be considered as mutually beneficial to all concerned. Agreements can identify specific responsibilities for providing various public amenities.

Grant Sources.

Grants may be available for public service expansion, including transportation related projects, water and sewer expansion, historic building renovation, economic development projects, police and fire equipment and vehicles, and public facility improvements. Grant sources may be federal, state, corporate or private funds. Grants may or may not require matching funds through cash match or from in kind sources. Grants are typically competitive and generally cannot be expected as a guaranteed source.

Community Development Block Grant (CDBG).

The City of Cottonwood is on a four-year cycle for receiving the CDBG grant funds. Current standards allow one project to be selected per cycle for a qualified project that meets established priorities. CDBG grants come from HUD through the Arizona Department of Housing with coordination and administration through NACOG. Public Hearings are held on the projects to be selected and rigorous criteria must be met and adhered to for the expenditure of these funds. Potential projects, including infrastructure, must qualify through identification of meeting community needs, primarily through assisting low to moderate income residents, seniors, disabled or similar special needs populations or affected areas.

Property Taxes.

The City of Cottonwood does not levy a City property tax and has no current plans to initiate such taxes. For many communities this is their primary source of revenue to fund operating expenses and maintenance of municipal facilities and services. A variety of other property taxes are applied in Cottonwood, including those by Yavapai County, various school districts, and state and other agencies; however, the City of Cottonwood obtains operating revenue through sales taxes, service fees, state share and other sources. Enactment of a local property tax would require approval by the voters of Cottonwood.



Franchise Tax.

A franchise tax is generally based on the gross sales of various regulated utility companies that serve Cottonwood customers. Such tax revenues tend to cover or contribute to a portion of costs and generally have limitations on their use.

Revenue Bonds.

Revenue bonds are issued by a municipality and backed by a dedicated revenue stream. Funds are borrowed to finance public service expansion and paid back through future revenues pledged to the bond issuer. Improvements to existing water and sewer facilities commonly use revenue bonds since these types of facilities have a steady revenue stream from the utility users to attract bond buyers. Revenue bonds do not require voter approval and the constitutional debt cap does not apply to revenue bonds. Municipalities with a population of under 75,000 may issue revenue bonds to finance utilities or recreational facilities.

Municipal Property Corporation Bonds.

Funds borrowed for improvements to municipal facilities, such as Police and Library facilities, requires pledge of all City excise tax revenues. Excise taxes include local and state-shared taxes, franchise taxes, licenses, permits and fines collected. Public vote is not required.

Improvement Districts.

Typically used to finance local sewer, water or street improvements but may also include a range of other types of area-wide improvements. An assessment is determined for each property in the district based on the share of benefit to be derived. The assessment district may be defined as the entire city or as a specific area to be determined. Typically, a schedule of payments is assessed to property owners to be paid over a number of years, such as through monthly or annual payments. The builder is paid in full for work completed through funding obtained through issuance of bonds. Bonds are secured by a lien on affected properties. Requires approval by a majority of property owner within the affected area through a petition process.

Community Facility District Bonds.

Allows financing of a range of public infrastructure projects through revenue bonds or assessment bonds within an improvement district. In principle, the property owners in the district and not the City assume liability if default should occur. In practice, when default occurs, property owners are likely to go to the municipality for relief. Water and wastewater projects, street improvements, downtown redevelopment and public facilities may be financed through issuance of Community Facility District Bonds. Has proven risky in other Arizona communities when the economy weakened and foreclosures resulted in default causing those municipal governments to have to step in and attempt to restructure half-finished projects.

General Obligation Bonds.

Cottonwood does not have a local property tax so use of general obligation bonds as a financing source is unavailable. However, cities throughout Arizona commonly use this source for infrastructure funding. Funds borrowed to finance public service expansion, such as sewer, water and parks that are paid back through future property tax revenues. If there was a local property tax, the City could borrow for up to 20 percent of its secondary assessed valuation with an additional 6 percent available for special projects. It would have to be approved by a public vote. But this source is not available without a property tax.

Enterprise Fund.

The Enterprise Fund is used to account for operations of the City's wastewater fund. The fund is financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.



E. FINANCING AUTHORITIES

Arizona Commerce Authority

The Department of Commerce, a state agency, was disbanded in 2010, and reformed as a public-private group with a more limited focus. The Arizona Commerce Authority (ACA) is described as the state's leading economic development organization with a streamlined mission to grow and strengthen Arizona's economy. The ACA uses a three-pronged approach to advance the overall economy: Recruit, Grow, Create. The ACA is overseen by a public-private sector board comprised of Arizona leaders in business and policy. A variety of services and grants may be available to assist development activities in Arizona.

Greater Arizona Development Authority (GADA)

The Greater Arizona Development Authority (GADA) was created by the Arizona State Legislature to assist local and tribal governments and special districts with the development of public infrastructure. GADA leverages its funds to lower the costs of financing and help accelerate project development for public facilities owned, operated and maintained by a political subdivision, special district or Indian tribe. Additionally, they can provide professional assistance in securing financing for infrastructure development and construction. The GADA Fund was utilized by the City of Cottonwood for partial funding of the Public Safety Building. In fiscal year 2011, the Arizona Legislature passed H.B. 2001 assigning the Water Infrastructure Finance Authority of Arizona (WIFA) to provide general administrative support, equipment, office and meeting space to GADA.

Water Infrastructure Financing Authority (WIFA)

An independent entity authorized to finance water, waste water, reclaimed water and other water projects. WIFA offers Water Quality Bonds that allow municipalities to borrow money at lower interest rates and lower financing costs for water-related infrastructure development. Typically, they offer 20-year terms with simple interest payments. The City's existing wastewater treatment plant was partially financed through WIFA.

USDA Rural Development (USDA/RD)

The US Department of Agriculture program provides assistance to rural towns in the form of direct grants, technical assistance, guaranteed loans, research and educational materials to address water, sewer and waste disposal, electricity, housing and business development and for housing, business, community facilities, and utility systems. Their mission is to enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources into areas with the greatest need for activities with the greatest potential. Programs connect rural residents to the global economy by:

1. Increasing access to broadband and 21st century telecommunications services;
2. Funding sustainable renewable energy development and conservation;
3. Financing reliable and affordable electric systems;
4. Working to integrate smart grid technologies;
5. Capitalizing on climate change opportunities; and
6. Developing rural water and wastewater systems to help address water quality.



F. GOALS AND OBJECTIVES – Cost of Development

GOAL 9-1 MEET LOCAL EXPECTATIONS FOR PUBLIC FACILITIES AND SERVICES IN A COST EFFICIENT, FAIR AND EQUITABLE MANNER.

- Objective 9-1. A** Ensure that development occurs in a fiscally sound and equitable manner.
- Objective 9-1. B** Encourage efficient, infill development and re-development in areas already served by existing infrastructure and public facilities.
- Objective 9-1. C** Establish a reasonable threshold of public facilities and services.
- Objective 9-1. D** Conduct “quality of life” surveys, and conduct public meetings and other activities to ascertain resident and visitor satisfaction with the current services, facilities, equipment and infrastructure serving the city.
- Objective 9-1. E** Develop a comprehensive strategy of redevelopment which addresses facilities and service needs for older portions of the city.
- Objective 9-1. F** Identify the costs of City of Cottonwood operations and facilities to maintain current and preferred service level standards. Maintain an inventory of costs associated with City facilities and services.
- Objective 9-1. G** Study activities which affect the cost of facilities, such as facility usage; baseline traffic counts of major roadways and intersections, and police and fire department response times.
- Objective 9-1. H** Coordinate planning with non-municipal utility providers to ensure that future community needs are being addressed.

GOAL 9-2 EQUITABLY ASSESS AND MANAGE THE FISCAL AND CAPITAL IMPACTS RESULTING FROM NEW DEVELOPMENT.

- Objective 9-2. A** Identify methods to measure the impacts of development on existing services so as to determine reasonable requirements imposed on the cost of development.
- Objective 9-2. B** Conduct periodic traffic counts on major roadways throughout the city as a baseline for traffic impact studies for new development projects.
- Objective 9-2. C** Support regional transportation planning programs that provide funding sources for roadway improvements that impact the City of Cottonwood.
- Objective 9-2. D** Support efforts to regularly update the wastewater master plan to measure the impacts of growth on the sewer system and wastewater facility.
- Objective 9-2. E** Perform a fiscal impact analysis and identify other methods to measure the actual impacts of development on existing services and facilities to ascertain reasonable requirements and fees to be imposed on new development and re-development. The analysis and policy should also acknowledge how new development helps to fund or attain capital improvements.
- Objective 9-2. F** Continue to develop and investigate mechanisms for funding public improvements and for relieving the public of financial burdens which may be associated with new development.



GOAL 9-3 IDENTIFY INNOVATIVE AND NON-TRADITIONAL FUNDING MECHANISMS TO ENABLE FUNDING OF PUBLIC SERVICES, FACILITIES, EQUIPMENT AND INFRASTRUCTURE NECESSARY TO MEET THE CITY'S NEEDS.

Objective 9-3. A Identify funding and development strategies for other necessary improvements associated with growth and development, including off-site street and infrastructure improvements, park facilities, public safety needs and other necessary city programs and public improvements.

Objective 9-3. B Support the establishment of special improvement districts where approved by the affected properties, to provide necessary improvements, such as utility improvements, drainage improvements, sidewalks, various street enhancements and other publicly identified needs.

Objective 9-3. C Explore opportunities for public/private partnerships which may help to provide financing for facilities and services.

Objective 9-3. D Annually evaluate the City's Capital Improvement Plan to coordinate public projects in a manner that is compatible with City development goals and to ensure maximum usefulness and affordability to the residents of Cottonwood.

Objective 9-3. E Investigate the possibility of revenue sharing to offset costs for facilities and services which may be associated with both local and regional impacts and which provide for mutual benefit for affected parties.